

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary  
or Exceptional Circumstances

Docket No. R2013-11

PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

(Issued October 25, 2013)

To clarify the Postal Service request for rate adjustment due to extraordinary or exceptional circumstances, filed September 26, 2013, the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than November 1, 2013.

1. Please confirm that you support the proposition that the 2007-2009 recession caused electronic diversion to accelerate. If confirmed, please produce all data, analyses, studies, reports, compilations of data, and similar information on which you rely in support of such proposition that you have not previously provided in this docket. If not confirmed, please explain.
2. Please confirm that the quantification in Docket No. R2013-11 of the volume impact of the recession effectively assumes that all changes in electronic diversion rates that have occurred since Fiscal Year 2007 were caused by the recession. If not confirmed, please explain your response fully, and produce all data, analyses, studies, reports, compilations of data, and similar information on which you rely.
3. The Further Statement of witness Thress (Further Statement) appears to assert that macro-economic conditions deteriorated between FY 2007 and FY 2012.

- (a) Please confirm that the cyclical component of the macro-economic variables used in your demand equations began improving in the 2009-2010 period.
- (b) If your response to part (a) is not an unqualified confirmation, please explain why you cannot provide a confirmation without qualification.
- (c) Whether or not you confirm part (a), please provide all data, studies and analyses on which you rely to support your response to this question.

Questions 4-11 refer to the Further Statement of witness Thress and the supported Library References: USPS-R2010-4R-10 or USPS-R2010-4R-9.

- 4. Please refer to Library Reference USPS-R2010-4R-10, ExigentImpact.xlsx, “Volume” tab, cells D5-D15.
  - (a) Please confirm that the impact of the employment trend variable on First-Class Mail Single-Piece letter mail volume is negative for every year from FY 2002 to FY 2012, including years before the onset of the 2007-2009 recession. If not confirmed, please explain your response fully.
  - (b) If part (a) is confirmed, please explain why the 2008 through 2012 losses in volume attributed to the employment trend variable should be treated as extraordinary or exceptional under 39 U.S.C. § 3622(d)(1)(E) when this variable had a negative effect on volume well before the onset of the 2007-2009 recession. Please produce all data, studies, and analyses on which you rely.
- 5. Please refer to Library Reference USPS-R2010-4R-10, ExigentImpact.xlsx, “Volume” tab, columns D through G, V, W, and AA as well as page 7 of the Further Statement of witness Thress. Witness Thress states: “That is to say, it is my estimate that, if macro-economic conditions had not deteriorated between

FY 2007 and FY 2012, and the relationship between mail volume and macro-economic and other factors had remained the same as before the Great Recession, total Market-Dominant mail volume would have been 53.5 billion pieces higher in FY 2012 than actual volumes that year, or 209.8 billion pieces of total mail, as compared to the actual FY 2007 volume for these categories of mail of 209.4 billion pieces”.

- (a) Please confirm that the volume changes shown in columns D through G of the “Volume” tab of Excel file “ExigentImpact.xlsx” quantify the Postal Service’s estimate of the changes in mail volume that the Postal Service contends were caused by changing “macro-economic conditions”. If your response is not an unqualified confirmation, please explain fully.
- (b) Please confirm that the volume changes shown in columns V and W of the “Volume” tab of the Excel file “ExigentImpact.xlsx” quantify the Postal Service’s estimate of the changes in mail volume that the Postal Service contends resulted from changes in “the relationship between volume and macro-economic and other factors” that occurred during the 2007-2009 recession. If your response is not an unqualified confirmation, please explain fully.
- (c) Please confirm that the table below accurately disaggregates the 53.5 billion piece FY 2012 “Total Macro” volume effect by product (shown in “Volume”). If not confirmed, please provide a corrected table.
- (d) Please confirm that the same table below disaggregates the volume changes between those due to column D through G (macro-economic) variables and the changes due to column V through W (intervention decomposition) variables. If not confirmed, please provide a corrected table.

Product	FY 2012 "Macro" Volume Effect (Millions)		
	Total	Columns V:W	Columns D:G
First-Class SP Letters	(9,169)	(6,996)	(2,173)
First-Class SP Cards	(498)	(379)	(119)
First-Class SP Flats	(661)	(499)	(162)
First-Class WS Letters	(11,312)	(9,885)	(1,427)
First-Class WS Cards	(772)	(676)	(96)
First-Class WS Flats	(179)	(156)	(23)
First-Class International Letters, Cards, & Flats	(17)	0	(17)
Standard Regular Letters	(19,014)	(14,153)	(4,862)
Standard Regular Flats	(3,332)	(2,367)	(965)
Standard Regular Other	(62)	(43)	(19)
Standard ECR Basic	(1,688)	0	(1,688)
Standard ECR High-Density / Saturation Letters	(708)	0	(708)
Standard ECR High-Density / Saturation Non-Letters	(1,950)	0	(1,950)
Standard Nonprofit Letters	(1,875)	(1,627)	(248)
Standard Nonprofit Flats	(260)	(223)	(37)
Standard Nonprofit Other	(6)	(5)	(1)
Standard NP ECR Basic	(109)	0	(109)
Standard NP ECR High-Density / Saturation Letters	(61)	0	(61)
Standard NP ECR High-Density / Saturation Non-Lett	(56)	0	(56)
Periodicals Mail	(1,623)	(768)	(856)
BPM Flats	(86)	(85)	(1)
BPM Parcels	(93)	(92)	(1)
Media & Library Rate Mail	(14)	(13)	(2)
<b>Total</b>	<b>(53,546)</b>	<b>(37,965)</b>	<b>(15,580)</b>

6. Please refer to Library Reference USPS-R2010-4R-10, ExigentImpact.xlsx, "Volume" tab, columns D through G and AA. Please specifically refer to cells D53 through G53 and cell AA53.
- (a) Please confirm that the provided estimate of the effect of the recession on mail volumes excludes the positive effect of the economic variables in columns D through G in years when these variables have a combined net positive effect on volume (*i.e.*, during the post-recession period).
- (b) If part (a) is not confirmed without qualification, please explain fully the meaning of the SUM(MIN(SUM(D53:G53,0))) expression in the formula in cell A53.

- (c) If part (a) is confirmed, please explain fully why excluding the positive effects of the economic variables on mail volume in the post-recession period is appropriate. Please produce all data, analyses, and studies on which you rely.
7. Please refer to the Further Statement of witness Thress and Library Reference USPS-R2010-4R-10, Source-of-ChangeCalc.xlsx.
- (a) Please describe the process used for selecting explanatory variables to include in the econometric demand equations related to macro-economic factors, intervention variables, and linear trends. Please also describe the general sequence of steps, and identify the statistical tests applied, the judgments used, and assumptions made.
  - (b) Please list and explain the factors and variables that you excluded due to unsatisfactory statistical tests results (including, but not limited to, multicollinearity identified between explanatory variables).
  - (c) Please provide a table with measures of correlation or interaction between different pre-existing non-macro-economic factors shown in Table 2 of the Further Statement. If you have not developed any estimates of such correlation or interaction, please explain why not.
  - (d) If you do have estimates of correlation, and if significant correlation exists between any of your factors or independent explanatory variables, please explain how you separate the joint effects of correlated factors on volume loss and assign the volume loss to one or another of the correlated factors.
8. This question refers to the Further Statement, Technical Appendix, at p. II-2, II-5 and II-14. On page II-5 of the Technical Appendix, it states that the analysis [related to First-Class Workshared Letters, Cards, and Flats] only used the cyclical component of the employment variable in the demand equation because

the trend component of the employment variable “was not found to have a statistically significant impact on First-Class workshared mail volume.” However, page II-2 of the Technical Appendix states that in the analysis [related to First-Class Single Piece Letters, Cards, and Flats] only the trend component of the employment variable “is included in the demand equation”. Also, only the trend component of the investment is entered into the Standard Nonprofit Mail demand equation (see Technical Appendix, page II-14).

- (a) Please explain why the cyclical component of the respective macro-economic variable was excluded from demand equations estimated for First-Class Single-Piece Letters, Cards, and Flats as well as for Standard Nonprofit Mail.
  - (b) Please confirm that the exclusion of the cyclical component of the respective macro-economic variable was due, in part, to its statistically insignificant impact on mail volume. If not confirmed, please explain.
9. Please refer to the Further Statement, Technical Appendix at p. II-10. The Technical Appendix explains the inclusion of dummy variables "to account for significant unexplained declines in Standard Regular mail volume in FY 2012." Please explain whether such declines may reflect the improved ability of advertisers to use the Internet effectively.
10. Please refer to Library Reference USPS-R2010-4R-9. In the Preface to USPS-R2010-4R-9 (Section II, Organization, Subfolder: Public Econometrics), you state that the “data used to estimate these demand equations is read into EViews from the Excel spreadsheet, RCFDATA.xlsx”.
- (a) Excel file RCFDATA contains two tabs: ‘Public’ and ‘Eviews’. Please indicate which tab provided data read into Eviews as stated in the above quote.

- (b) For certain variables, data in RCFDATA.xlsx, Eviews tab, are shown as “#NUM”. See, e.g., Column F, cells F2-F38 and Column H, cells H2-H43. Please explain the reason for such a result in the presentation of data and provide a revised spreadsheet correcting the cells with “#NUM” value, if applicable.
11. In answering the following questions, please refer to the table below that compares actual and forecasted volumes for different classes of mail.
- (a) Please confirm that the volume forecast for First-Class letters, flats and parcels was less accurate in the demand equation model in Docket No. R2010-4 over the period 2010:Q2 through 2010:Q4 than it was in the demand equation model in Docket No. R2006-1. If not confirmed, please explain.
  - (b) Please confirm that the forecast in Docket No. R2010-4, only one year out for 2011, was hundreds of millions of pieces in error in each quarter compared to the forecast made at the start of 2011 and filed at the Commission on January 20, 2011. If not confirmed, please explain.
  - (c) Please confirm that in each of the two foregoing cases (Docket No. R2006-1 and Docket No. R2010-4) the deviations were in the direction of overestimating volumes. If not, confirmed, please explain.
  - (d) Please confirm that the volume forecast for 2012 filed with the Commission on January 20, 2012 differed from actual volumes (1) by hundreds of millions of pieces, and (2) in the direction of underestimating volumes in each quarter. If not confirmed, please explain.

<b>Actual vs Forecast Volumes of First-Class Mail Single-Piece (SP) Letters, Flats, and Parcels</b>						
Time	Actual SP Letters, Flats, & Parcels Volume	Forecast SP Letters, Flats, & Parcels Volume R2005-1	Forecast SP Letters Flats, & Parcels Volume R2006-1	Forecast SP Letters, Flats, & Parcels Volume R2010-4	Forecast SP Letters, Flats, & Parcels Volume 1-20-2011	Forecast SP Letters, Flats, & Parcels Volume 1-20-2012
2005.2	10,660	10,804				
2005.3	10,311	10,767				
2005.4	10,028	10,328				
2006.1	11,531	11,744	11,841			
2006.2	10,690	10,406	10,110			
2006.3	10,161	10,366	9,939			
2006.4	9,547	9,943	9,521			
2007.1	11,333	11,320	11,127			
2007.2	9,888	10,313	9,790			
2007.3	9,855	10,033	9,347			
2007.4	9,047	9,605	8,841			
2008.1	10,620		10,556			
2008.2	9,310		9,192			
2008.3	8,906		8,904			
2008.4	7,875		8,554			
2009.1	9,520		10,128			
2009.2	8,224		8,689			
2009.3	7,703		8,558			
2009.4	7,338		8,198			
2010.1	8,983		8,794			
2010.2	7,088		7,129	7,487		
2010.3	7,084		7,072	7,314		
2010.4	6,554		6,532	6,732		
2011.1	7,857			8,133	7,908	
2011.2	6,539			7,025	6,757	
2011.3	6,439			6,833	6,665	
2011.4	5,962			6,362	6,195	
2012.1	7,166					6,685
2012.2	5,976					5,634
2012.3	5,772					5,528
2012.4	5,520					5,108

Sources for the Table:  
R2005-1 volume forecasts from file vf\_ar.xlsx in USPS, R2006-1, LR-K-66. R2006-1 volume forecasts from file vf\_ar.xls in USPS, R2006-1, LR-L-66.  
R2010-4 volume forecasts from, After-Rates Jan11 V&R Forecast Public.xls in Library Reference, USPS-R2010-4/8 filed on 7-6-2010; 2011 forecasts from volume forecasting, VF-Jan2011(m-d).xls in md-1-20-2011.zip filed on 1-20-2011; 2012 forecasts from volume forecasting, fv2012.xlsx in: Market\_Dominant.zip filed on 1-20-2012.



Question 12 is directed to witness Nickerson.

12. Please refer to the table below:

<b>R2010-4 and R2013-11, Exigency Revenue Request</b>					
	<b>R2010-4 % Change</b>	<b>R2010-4 \$ Change</b>		<b>R2013-11 % Change</b>	<b>R2013-11 \$ Change</b>
FCM:					
Single-Piece Letters & Cards	4.652%	\$616,855,582		4.276%	\$464,152,564
Presort Letters and Cards	5.927%	\$969,667,277		4.291%	\$659,642,333
Flats	6.256%	\$207,095,541		4.627%	\$123,052,260
Parcels	5.415%	\$61,871,846		4.349%	\$29,385,529
DVD Mail	0.000%	\$0		4.297%	\$2,904,379
FCM International	4.973%	\$46,297,704		2.391%	\$13,600,018
Total Change	5.433%	\$1,901,787,950		4.281%	\$1,292,737,084
Standard Mail:					
LFP	5.985%	\$727,803,168		4.264%	\$500,485,891
ECR	4.681%	\$224,761,942		4.266%	\$230,917,685
Total Change	5.616%	\$952,565,110		4.264%	\$731,403,576
Periodicals:	8.035%	\$154,315,980		4.297%	\$73,938,480
Package Services:	6.700%	\$105,454,416		4.303%	\$37,287,443
Overall Change:	5.6%	\$3,114,123,456		4.3%	\$2,135,366,583
Sources:					
Docket No. R2010-4, FCM_Worksheets_Revised_Aug62010.xls					
Docket No. R2010-4, Standard_Mail_Wrkshts_Revd_Aug62010.xls					
Docket No. R2010-4, Periodicals Worksheet Exigent Request, USPS-R2010-4/3					
Docket No. R2010-4, Package Services Mail Worksheet, USPS-R2010-4/4					
Docket No. R2010-4R (9-26-2013), First-Class Mail Worksheets, WP-FCM-R2010-4R.xls, USPS-LR-R2010-4R/2					
Docket No. R2010-4R (9-26-2013), Standard Mail Worksheets, WP-STD-R2010-4R.xls, USPS-LR-R2010-4R/3					
Docket No. R2010-4R (9-26-2013), Periodicals Worksheets, WP-PER-R2010-4R.xls, USPS-LR-R2010-4R/4					
Docket No. R2010-4R (9-26-2013), Package Services Worksheets, WP-PSVC-R2010-4R.xls, USPS-LR-R2010-4R/5					

- (a) Please confirm that the rate requests in this case are the following percentages of the corresponding rate increases requested in R2010-4:

First-Class Mail total:	68%
Standard Mail total:	77%
Periodicals:	48%
Package Services:	35%

(b) If not confirmed, please explain.

Ruth Y. Goldway  
Presiding Officer